

## ***Introduction***

The Child Care Program, administered by the City's Social Services (DSS) unit within the Department of Human Services, provides low-income families with the financial resources to find and afford quality child care for their children, to promote parental choice in the selection of child care and to ensure that subsidy dollars are provided to the neediest families. The program is primarily funded by Federal and State grants.

There are over three hundred and fifty clients currently receiving assistance from the Child Care Unit which is staffed by a supervisor, two full-time workers, one emergency worker, one part-time worker and an aide. These employees are responsible for determining whether applicants meet the eligibility requirements by ensuring that the applications are properly completed and by validating verification of employment status and income levels of the applicants. The applicants are also required to sign "Parent Responsibility" statements which list the clients' responsibilities while receiving child care assistance. If information is missing from an application but it is signed by the applicant, the workers can access any existing client data on the state's Application Benefit Delivery Automation Project system (ADAPT). The workers approve/disapprove award of child care assistance based on employment information or school attendance and whether the applicant is currently receiving other types of assistance.

Once approved, monthly gross pay is determined using all sources of income (salary, alimony, child support, etc.) received by the client and their adjusted gross pay is computed. Clients with jobs and some of those in the View program must pay 10% of their adjusted gross pay toward the cost of the child care. Recipients of Temporary Assistance to Needy Families (TANF) who are working are not required to pay fees.

All clients are responsible for finding the child care providers for their children; however, the workers are each assigned twenty providers to visit annually to enhance the relationship between them and DSS. Two of the workers are currently participants in the "Success By Six" program sponsored by United Way which promotes mentoring and guidance for child care establishments.

Purchase of Service Orders for the providers are set up by the workers on the Thomas Brothers System which was purchased by the city. Manual vendor files are maintained which contain certification and licensing information. The workers also enter provider information to the Virginia Client Information System (VACIS). Providers submit monthly invoices to the workers who review and approve them and forward them with a report summarizing the invoices processed to the accounting section of DSS for

payment. Workers perform quarterly reviews of the working clients to determine that they are still employed, and monthly reviews for those clients who are in school.

When the invoices and report are received in the accounting section, the accounting clerk totals the amounts due to the providers, compares the result to the system report and enters the payment amounts to the Welfare Payment System on the AS400. Financial Services prints the checks and the warrant (check) registers, distributes the checks and posts the general ledger entries. I.T. creates a file that is emailed to the accounting clerk in DSS. The clerk copies the file to a disk which is uploaded to the state's "Interim Child Care System" for comparison to the information on VACIS. If there are discrepancies in the data, a report is created and the accounting clerk researches and corrects the erroneous information. The accounting clerk also enters summary information of the payments to the Locality Automated System for Expenditure Reimbursement (LASER) which is used by the state for grant reimbursements. The Interim Child Care System also compares the information uploaded to that entered to LASER.

Reimbursements from the state are sent via electronic data transfer to the City's finance department. The deposit detail information is then forwarded to another accounting clerk within DSS who furnishes the appropriate revenue codes for entry to the general ledger.

This audit was performed as a regularly scheduled audit with the approval of the Audit Committee.

### ***Review Objectives***

The purpose of the review was to determine that:

- The program is meeting the regulatory requirements regarding health, safety and care standards;
- Benefit recipients meet the qualifications for assistance;
- Adequate controls are in place to provide reasonable assurance that payments are valid and accurate;
- Appropriate reimbursements are received for program expenditures; and
- The current processes and procedures are efficient and effective in meeting the program goals.

### ***Scope of Work***

We reviewed client and child care provider files, purchase of service orders and related invoices, warrant registers, LASER reports and state reimbursement advices. We compared provider check histories to 1099 information and verified that providers were in compliance with State and Local licensing requirements. The audit included tests of client eligibility, provider regulatory compliance, proper support documentation and approvals for payments to providers and accuracy of expenditure and reimbursement

information. We also interviewed staff in the Child Care Program and finance areas in the Department of Human Services, as well as staff in the Department of Information Technology to gain an understanding of the current processes in place for administering the program.

The audit was conducted in accordance with professional internal auditing and generally accepted governmental auditing standards specified in the City's Internal Audit Charter and, accordingly, included such tests of records and other audit procedures as were considered necessary in the circumstances.

### ***Opinion On Internal Controls***

The objectives of a system of internal control are to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management authorization and are properly recorded.

It is our opinion that controls need to be strengthened to ensure that approved purchase orders and signed payment agreements are in place and that providers are in compliance with licensing requirements prior to issuing payments for child care. Additionally, a procedure should be in place that requires documentation and approval of any changes made to purchase orders, invoices and 1099's to ensure accuracy.

*Management agrees that the internal controls need to be strengthened and have taken steps that are detailed in their responses to address the problem.*

### ***Audit Conclusions***

Based on the results of our review of the Child Care Program, we conclude that...

- The program is meeting the regulatory requirements regarding health, safety and care standards, *except as noted in the Observations and Suggestions section of this report*;
- Benefit recipients meet the qualifications for assistance;
- Controls need to be strengthened to provide reasonable assurance that payments are valid and accurate;
- Appropriate reimbursements were received for amounts requested; and
- Current processes and procedures are not adequate to ensure that program goals are achieved.

### ***Observations and Suggestions***

#### **Observation: Inadequate Systems**

Numerous systems are currently being used in Human Services. Some of these are local and others are state systems that are required for record keeping, reporting of

expenditures, and reimbursement requests. These systems are not linked and the flow of data is difficult to follow. The necessity to enter the same data into more than one system results in an enormous duplication of effort and creates a greater potential for errors to occur. Although massive amounts of paper documents are printed and filed, it is extremely difficult to trace the progress of clients through various programs and services.

In April, 1999, the Human Services department purchased several modules of Harmony, a system designed specifically for use in their industry, to record data and transactions for the Comprehensive Services Act (CSA), Foster Care, and Title IV-E. One module is also capable of recording data related to adoptions but some security issues remain to be resolved before the local department expands its use to this area. Modules for child care and court services have recently been purchased and a group has been formed to work on implementation. Although Harmony is capable of tracking information for clients and providers of services, creating Purchase of Services Orders, processing payments, cutting checks, and linking to the city's AS400 and the state's LASER system, it is not being fully utilized. After data is entered in Harmony, the same information must be entered into the Welfare Payments program that was developed locally. The Welfare Payments system produces data to print checks, information that is used to generate manual entries to the Financial Management System, a file that is uploaded from disk into the state's Interim Child Care System, and a summary of payment data to generate 1099's at year end.

***Suggestion:***

We recommend that the Department of Human Services continue to expand its capabilities within the Harmony system to the point that it is the primary point for data collection, transaction processing, and provider and client histories. The Harmony system should be interfaced with the Dominion check writing system to produce checks and the New World Systems Financial Management module to record financial data. It should also be interfaced with the state's LASER system to transmit expenditure information and establish client records.

***Management Response:***

*We agree that our systems are inadequate and because of the duplication of entering the same financial information in different software systems there is a greater likelihood of error and the duplication of data entry tasks is not a good use of our staff time. We have taken the following steps to address this problem.*

- 1) We have purchased the Child Care module from Harmony Information Systems to add to our existing Harmony software that currently is used for processing financial information for Comprehensive Services Act (CSA), Title IV-E, and Adoption Subsidy programs. The Harmony Information Systems is capable of being linked to our City financial system for check writing purposes and will integrate with the state LASER system. This would reduce the duplication of work, reduce the likelihood of error as a result of repetitive data entry processes, and reduce the amount of staff time to perform these duties.*

- 2) *We have been working with the Information Technology (IT) Department for a place to store the data from these programs. We need a much larger storage capacity for the data and a system that will accommodate multiple users. Gary Cowden from the IT Department has been assigned as the project manager. He recently notified our department that a place on an existing SQL server had been identified to store the data and by using the City network will accommodate multiple users. The project has been delayed because of other IT obligations but we have been promised that IT will beginning moving ahead with the Harmony project in October 2003.*

**Observation: Voluntarily Registered Providers**

The state of Virginia requires that child care providers be licensed if they keep more than four infants or more than five children between birth through age 12 at the same time. The state routinely monitors licensed providers to ensure their compliance with various health and safety requirements. The Child Care Link and Resource Center, a community service organization, is contracted by the state to monitor voluntarily registered providers. During our review we noted that the Child Care area had paid two voluntarily registered providers for the care of more than five children. One provider was paid for the care of nine children, the other provider for ten. There is currently no way the workers can determine whether providers are in compliance with the state regulations for the number of children in a provider's care at one time.

*The unit supervisor researched the situation and was told that in both cases noted the providers care for the children during different time shifts.*

**Suggestion:**

The systems currently in place do not readily provide information on the number of children being kept by each provider. As a result, Human Services may not be aware of occasions when children are placed in situations where adequate health and safety precautions are not monitored and enforced. Once the Harmony system is implemented, caseworkers will be able to obtain a count of the number of children included in payments made to providers. In the interim, we recommend that Human Services establish a method of monitoring the number of children the city is paying the provider to keep. In the event that it is determined a provider is keeping more than five children at one time, Human Services should immediately notify the appropriate state agency and discontinue payments to the provider until proof of compliance with state regulations is obtained.

**Management Response:**

*We agree that the number of children being kept by providers at any one time is important information.*

- 1) *The agency is about to implement the Harmony Information System that will provide this data on a real time basis.*

- 2) *Harmony will be able to give us the number of children each provider is caring for at a particular point in time.*

**Observation: Childcare Providers without Business Licenses**

The city may not be collecting business license taxes due from some child care providers. During our review we noted that a number of child care providers who are paid by Human Services do not have city business licenses. The requirements for obtaining a business license have changed over the years and it appears that the changes have created some confusion over whether or not child care providers are required to obtain a business license. Currently, city code requires a business license for child care providers if the state of Virginia requires them to be licensed as a child care provider. The city code as well as state licensing regulations allows an exemption for organizations with a religious affiliation.

***Suggestion:***

The Commissioner of the Revenue has developed a checklist that can be used by caseworkers in the child care area to determine whether or not a provider should obtain a business license. He has also offered to work directly with this section of Human Services to ensure that providers are obtaining city business licenses as required.

***Management Response:***

*We were unaware that any child care providers were required to have business licenses. Letters have been sent to providers who are State licensed, requesting that they contact the Commissioner of Revenue's office regarding business licenses.*

**Observation: Warrant Registers**

The Virginia Department of Accounts requires that Warrant Registers be signed by an approving authority from the local Social Services department and the Finance Department as stated in Volume I, Chapter F, page 39a, of the Financial Administration Manual. We noted during our audit that Warrant Registers were routinely signed by a clerical employee of the Finance Department but were unable to locate any copy that was signed by an official at Social Services. Information received from the Virginia Department of Social Services indicated they are willing to accept an electronic method of approval instead of paper documents with signatures.

Another observation related to the Warrant Registers concerns the practice of printing two complete copies each month, one which is kept by the Finance Department and one kept at Human Services. This consumes an enormous amount of paper that must also be stored. Discussions with the state department revealed that it is not necessary to print hard copies of this information if an electronic means of storage and retrieval of the data can be developed.

***Suggestion:***

We recommend that the Warrant Register be stored in an electronic medium that is accessible to various employees and others as needed. We also recommend that this information be routinely backed up to protect against accidental loss.

In addition, we suggest that the local department of Human Services develop a method to be used for electronic verification of the contents of the Warrant Register by Social Services and Finance Department personnel.

***Management Response:***

*We agree that a better method of storage for these bulky reports be created. We have taken the following steps to address this problem.*

- 1) At the current time we are still printing the reports and are now having them properly signed by the Director of Human Services and the Director of Social Services. This is being done in order to comply with an old written regulation prior to computer technology. According to the Director of Audit Services, R. Schreiber, the Virginia Department of Social Services, there is no reason that a diskette could not be used for appropriate storage.*
- 2) We have contacted the City Finance Department to begin the process of electronically storing, retrieving, and verifying the warrant registers. We will also work with the IT Department to ensure that the reports are properly stored and that the information is properly backed up to protect against accidental loss.*

***Observation: Incomplete File Documentation***

The Virginia Department of Social Services policy, Volume I, Chapter B, "Intake and Case Management" requires that local offices maintain specific documents which include generic documents, applications, notices of action, service plans, purchase of service orders and narratives of the chronological accounts of the cases. Additionally, the state Social Services policy, Volume II, Section II, Chapter D, "Child Care", requires that payment agreements, parent responsibility forms and fee worksheets (where applicable) be maintained.

We reviewed thirty client files for documentation of eligibility and found that applications were missing for two clients, parent responsibility forms for two clients and payment agreements for four clients. Also, five files did not have payment agreement forms with both client and provider signatures.

*Applications*

According to the supervisor of the Child Care Program, applications have not always been required to be maintained in the clients' child care files if their

service plans were established under the VIEW program and they were also eligible for child care. Detailed applications are now required for all applicants of child care assistance.

#### *Parent Reporting Responsibilities Forms*

State policy provides that, "Applicants for child care services are required to complete the Child Care Parent Reporting Responsibilities Form. The applicant and the worker should sign the form with a copy given to the applicant and the original maintained in the case record."

#### *Fee Payment Agreements*

A Child Care Fee Payment Agreement establishes that the clients agree to pay the child care provider the amount established as a co-payment, and the provider agrees to accept the co-payment amount and bill the remainder of the monthly fee to the city. This form should be signed by both the client and the provider.

We also tested twenty-one additional files for validity and accuracy of payments to providers and noted that purchase of service orders were missing for six files and one file did not have a required fee worksheet. According to child care staff, some child care providers do not sign and return their copies of purchase orders. We noted that in several instances, unsigned purchase orders were in the files indicating that the provider copies were not returned. There was no indication why six other purchase orders were missing from the files.

Applications and fee worksheets are necessary to help determine eligibility and amounts of co-payments. Signed Parent Reporting Responsibilities Forms ensure that the clients are aware of their role in receiving child care subsidy, and signed payment agreements and purchase of service orders establish contractual agreements that ensure that payments to child care providers are valid and accurate.

#### ***Suggestion:***

We recommend that more emphasis be placed on maintaining complete files to support client co-payments and city payments to providers, and to ensure compliance with state requirements. We also suggest that providers be required to return properly signed Fee Payment Agreements and Purchase of Service Orders before any payments are made against their invoices.

#### ***Management Response:***

*We agree that it is important that Fee Payment Agreements and Purchase of Service Orders are returned to the agency prior to payments for child care being made to providers. Although it is not required by state policy that the Fee Payment agreements are returned prior to payments beginning, we are working on a strategy to address this.*



### **Observation: Inadequate Payment Documentation**

Case workers send invoice forms to appropriate child care providers when purchase orders are issued. The invoices provide a format to record monthly attendance records for the children who receive subsidies under the program. Providers complete these records, sign the invoices and return them to the workers who calculate the amounts to be paid.

We reviewed support documentation for twenty-one provider payments and noted the following:

- One invoice had multiple errors:
  - The parent's co-payment amount was different than the amount established on the fee worksheet in file and stated in a letter sent to the parent.
  - Unit prices printed on the invoice were incorrect.
  - When the unit price shown was multiplied by the number of units, the result was different from the net billing.
  - The sum of the three line items did not agree with the total of the invoice.
  - The invoice showed payment for three children attending full days when one child's attendance had been reduced to half days.
- One purchase order was not signed by the worker and/or the supervisor. Procedures require that both the worker and the supervisor approve purchase orders.
- There was one invoice submitted for child care for three children. The referenced purchase order was issued for only one of the children. Payment was made for all three and the original purchase order was changed to add the other children. A new purchase order should have been issued to add the children and to show approvals by appropriate personnel.
- On one invoice, attendance for some of the days appeared to have been lined through, but were included in the payment.
- Changes (such as the unit rate) were made on several of the invoices without indication of who made the changes or why they were made.
- A letter was sent to a client stating that payments would be discontinued on 3/03; however, an invoice was paid for services provided through 3/14, the date indicated as the ending date of service on the purchase order.
- For 3 of the invoices, the rates appeared to be higher than the market rates established by the State. *According to the supervisor, some of the providers do not distinguish between the toddler and preschool children and continue to charge the higher toddler rate until the children reach school age.*

Using dates of services noted on purchase orders rather than actual days of service may result in overpayment to providers. Additionally, the lack of documentation for changes, improper processing of purchase orders and inaccuracy of co-payments may result in unauthorized or improper payments to the providers.

***Suggestion:***

We recommend that more care be taken to ensure that all payments to child care providers are accurate, properly approved, and adequately documented. We suggest that procedures be implemented to verify the accuracy of invoice information prior to making payments. We also suggest that changes be made to purchases for services by voiding the incorrect purchase order and issuing a new one.

***Management Response:***

*We agree that greater care must be taken with the payment processes so that errors do not occur. The following steps have been taken to address this problem.*

- 1) When the amounts on purchase orders and invoices are changed the person making the change is to initial the change and document why the change is being made. If changes are made on these documents and submitted to the Accounting Technician II for payment but the changes have not been initialed nor documented they are being returned to the Child Care Program. The appropriate staff person in the Child Care Program is requested to properly document the changes and initial the changes before resubmitting for payment.*
- 2) Staff members in the Child Care Unit are to carefully compare invoices to purchase orders to make certain that the financial information on the invoice is correct and that it agrees to the contractual agreement of the purchase order.*
- 3) Proper signatures are required on all documents. If proper signatures are not on invoices they are being returned to the Child Care Program for proper signatures before payments are made. If an alternate staff member is authorized to sign for a supervisor we have required that a signed letter be sent to the fiscal unit notifying them of this authorization. These letters are kept on file and referred to when other than a supervisor signs a document authorizing payment.*
- 4) We have already referred to the need of the Harmony Information Systems to be fully implemented to help manage the financial needs of this program. Harmony will be a very valuable tool for the fiscal staff in reducing the number of incorrect payments because technology will replace many of the manual processes that we now rely upon to process financial documents in the Child Care Program.*

***Observation: File Organization***

The file organization in Child Care does not comply with the DSS "Intake and Case Management" policy that requires case records to "be organized in a specific way." It instructs workers to "separate material in a case record into divisions, grouping the same or similar forms and documents together. Within an agency, case records in the same program/service area should be separated into the same divisions. Within each division, material should be fastened together in chronological order." Although some of the files we reviewed were more orderly than others, none of the files were organized in divisions fastened together as required. Client case activities were difficult to follow.

The policy also states that the chronological account of the case should "List the dates, the types of contacts and who was contacted with summaries", and requires that the worker, "type or legibly handwrite the narrative in ink." Some of the files we reviewed had narratives that were illegible and did not clearly reflect the dates of entry.

***Suggestion:***

We recognize that file maintenance is challenging due to the large number of cases handled by the workers who are responsible for processing purchase of service orders and invoices as well as counseling and monitoring clients and child care providers. We recommend, however, that the Child Care unit implement a procedure for more orderly file maintenance to comply with the state requirements. We suggest that management consider the possibility of placing a clerical position in the unit to handle processing of purchase orders and invoices to help reduce the amount of paper work currently handled by the case workers.

***Management Response:***

*We recognize the need for consistency in the organization of child care files. Although the State Child Care policy does not specify file organization, we have developed a uniform organizational format to ensure consistency among all workers.*

**Observation: Quality Initiative Grant**

The Virginia Department of Social Services makes funds available to localities to develop, enhance and strengthen initiatives to increase the quality of care delivered to children. Each locality must complete an agreement and have it approved by the appropriate Regional Consultant to receive funding. The agreement in effect during our period of review was for June 01, 2001 through May 31, 2003 and included funding of \$35,000.00 per year.

Providers wishing to participate in the program must submit proposals to explain the purpose of the proposed activity, indicate how it will enhance what is already in place, explain what specific populations the program will target and include the amount requested. Budget summary sheets and a plan detailing the objectives, a time line and a plan for evaluation must be included.

Once the providers are selected, contracts are signed. The amounts are disbursed in two payments throughout the year and the recipients submit monthly reports of the grant funds expended. For FY2003, sixteen child care providers received funding totaling \$35,000. In addition, supplemental funding of \$8,750 was allocated by the State and awarded to six (6) additional providers and the Alliance For Families and Children.

According to the child care supervisor, the current workload prevents the workers from visiting the providers to monitor the projects that are funded by this grant. The workers may have an opportunity to see the results of the funding when they visit the

facilities; however, each facility is not visited on a regular basis. Although reports of the expended funds are submitted monthly, there is no assurance that the funds are actually expended for the items reported.

***Suggestion:***

We recommend that Human Services require the providers to include receipts, or other support documentation, of the actual expenses with the monthly expenditure reports to ensure that the funds are appropriately spent for the approved projects.

***Management Response***

*All providers receiving monies must sign a contract concerning the use of the funds received and must submit monthly reports on their agency letterhead stating how these funds are being spent and for what purposes. Invoices or receipts are included, if applicable. The implementation of the Quality Initiative Grant policy does not require monitoring by local staff.*

**Observation: IRS Reporting**

During our review of 1099 records for Child Care services for 2002, we noted that the information for one provider showed an annual amount that was substantially higher than was shown for three previous years. This provider also received nontaxable payments under the adoptive and foster care programs which were included in the 1099 total in error. After much research, we determined that this error was due either to a problem in the automated Welfare Payment system or a manual change to the system total for this provider.

The system is programmed to exclude nontaxable amounts, based on welfare code types, from those amounts to be reported to IRS on the 1099. I. T. staff are working with accounting staff in Human Services to determine if the problem was caused by a system error.

We also learned that the check histories and the 1099 amounts shown on the system are reconciled each year by accounting staff and adjustments may be made prior to submitting the 1099 information to the city's Department of Financial Services.

***Suggestion:***

No matter what the cause of the error, we recommend that changes to financial data on the system be made by someone other than the person entering the payment information. The changes should be fully documented and approved by someone in a supervisory position.

**Management Response:**

*We agree that the 1099's should be accurate and that if any changes need to be made to them, that they should be made by someone other than the person entering the data. The following steps have been taken to address this problem.*

- 1) We have contacted the IT Department to see if there is some sort of error in the system. The Accounting Technician II has tested the system and it seems to be operating correctly at the terminal. However, one or more of the 1099's for calendar year 2002 did not contain the correct reportable tax information. We will continue to work with them to identify the problem.*
- 2) A person other than the person entering the information will change any information that needs to be changed on the 1099's. The person making the change should be a supervisor and the change should be fully documented.*

**Other Comments**

We appreciate the assistance we received from employees in the Child Care, Accounting and Administrative sections of Human Services, Information Technology staff and the Commissioner of the Revenue. We are available to discuss this report and address any questions or concerns regarding our observations and suggestions.

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